

Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 L-03 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4976

C O N F I D E N T I A L MANILA 8948

PASS USDA/FAS/K. STEPHENS/CEP AND D. WILLIAMS/COT/IMD

STATE FOR J. WILLIAMS/F&TD

E.O. 11652: GDS

TAGS: EAGR, RP

SUBJECT: YUPANGCO-COTTON IMPORT EXPORT COMPANY COTTON CONTRACT

REF: (A) STATE 152266; (B) MANILA 8750

1. MISSION SHARES CONCERN EXPRESSED REFTEL (A) THAT ANY EFFORT REACH SOLUTIONS TO PROBLEM OF YUPANGCO CONTRACTS NOT LEAD TO UNDERMINING OF ASSURANCES PROVIDED BY DBP IN RESPECT TO OTHER OUTSTANDING CONTRACTS.

2. MISSION HAS RECEIVED NO INDICATION THAT DBP HAS PROBLEM OR COULD BE EXPECTED HAVE PROBLEM WITH OTHER CONTRACTS THAT IT OBVIOUSLY IS HAVING WITH YUPANGCO CONTRACTS. TWO ELEMENTS DISTINGUISH YUPANGCO CONTRACTS FROM THOSE OF OTHER MILLS: (1) CIEC HAS BEEN CHARGED WITH SHORT QUALITY AND HAS BEEN FOUND BY AN ARBITRATOR TO HAVE PROVIDED SHORT QUALITY ON A PREVIOUS SHIPMENT AND (2) CIEC EXTENDED AN OFFER OF A SUBSTITUTE DEAL PRIOR TO DBP INVOLVEMENT.

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3. CIEC WITHDRAWAL OF ITS SUBSTITUTE OFFER TO YUPANGCO HAS NOW PLACED DBP IN POSITION OF BEING ASKED TO ASSURE PERFORMANCE OF CONTRACT WHICH CIEC WAS WILLING TO MODIFY FOR YUPANGCO. DBP'S RESISTANCE TO THIS UNDERSTANDING OF ITS ASSURANCES IS NOT SURPRISING. IN ADDITION, DBP IS UNDOUBTEDLY AWARE THAT ITS COMMITMENT OF GOP TO BUYER'S PERFORMANCE UNDER YUPANGCO-CIEC CONTRACT IS NOT PARALLELED BY USG COMMITMENT TO SELLER'S PERFORMANCE.

4. DBP REQUEST IN JUNE 16 LETTER REPORTED REFTEL (B) IS FOR RENEWAL OF PROPOSAL TO YUPANGCO. MISSION DOES NOT ANTICIPATE DBP WILL MODIFY ITS POSITION IN ABSENCE OF INDICATION FROM CIEC THAT IT WILL REQUIRE NO MORE UNDER DBP ASSURANCE THAN IT PREVIOUSLY STATED IT WOULD REQUIRE IN THE ABSENCE OF THAT ASSURANCE. MISSION RECOMMENDS THAT WASHINGTON AGENCIES DISCUSS WITH CIEC THE RENEWAL OF ITS EARLIER PROPOSAL. SUCH RENEWAL, POSSIBLY COUPLED WITH REITERATED ASSURANCES REGARDING THE QUALITY OF COTTON TO BE SHIPPED, SHOULD PROVIDE OPPORTUNITY TO RESOLVE YUPANGCO CASE IN MANNER CONSISTENT WITH DBP ASSURANCES REGARDING OTHER CONTRACTS.

5. SHOULD WASHINGTON AGENCIES ADVISE THAT APPROACH ALONG LINES ABOVE IS FEASIBLE, MISSION WILL BOTH SUPPORT PROPOSAL WITH DBP AND SEEK ITS ASSURANCE THAT ASSURANCES IN RESPECT TO OTHER MILLS WOULD NOT BE AFFECTED.

6. PLEASE ADVISE.

7. SEPTTEL FOLLOWS ON INTERNATIONAL TEXTILES AND UNITED ASIA MANUFACTURING CO.
PURNELL

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